



OTZ Telephone Cooperative

High Cost Impacts of FCC Actions

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Introduction: OTZ in Trouble

- OTZ is a member-owned cooperative serving primarily Tribal villages in Remote Northwest Alaska
- High Cost reform has drastically reduced OTZ's revenues and raised OTZ's administrative costs
- OTZ has been forced to reduce services, abandon wireless buildout plans and decline RUS funds
- Despite significant cost-cutting, OTZ forecasts it will be operating at a net loss beginning in 2016



Extremely High Cost Area

- Service area the size of the state of Indiana
- Ten Villages and the Red Dog Mine: populations between 141-858
- Kotzebue population: 3,237
- Temperatures average -20s in winter to 60s in summer
- Most villages miles North of the Arctic Circle
- All villages only accessible by boat/plane/snow machine and not connected to the road system



Tribal Customers

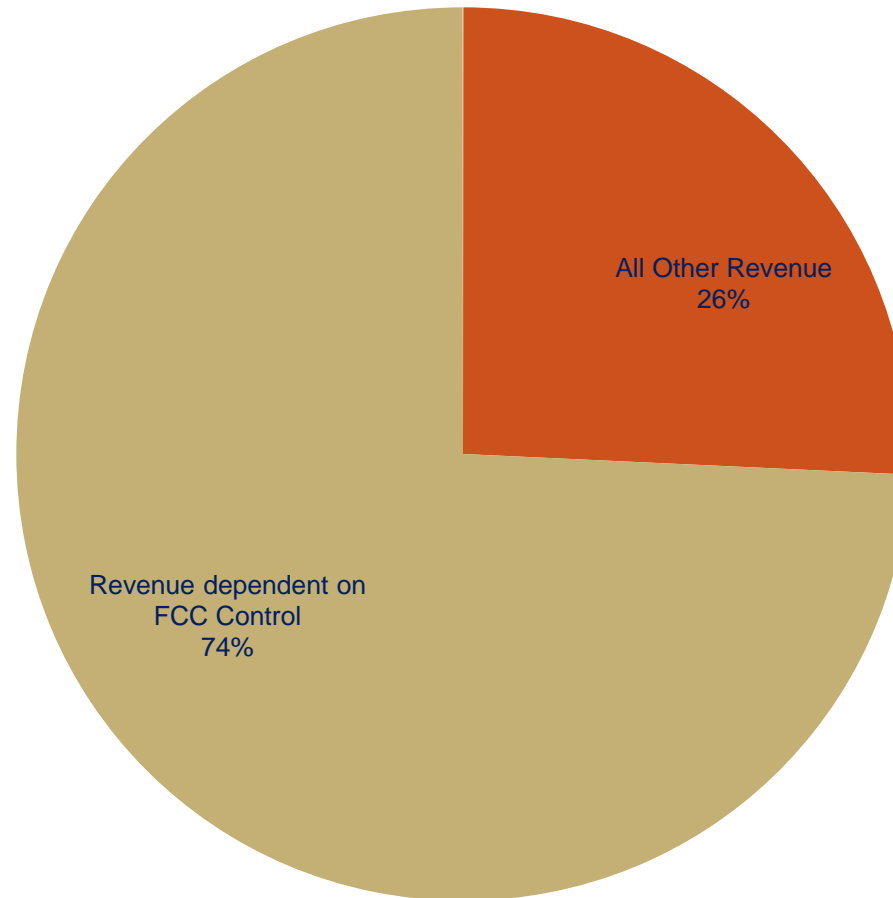
- All OTZ Board members are Inupiat Eskimo and 73% OTZ staff are Alaska Native.
- Most OTZ customers are Inupiat Eskimos practicing a traditional subsistence lifestyle
- Federally Recognized Tribal Entities: Native Villages of Ambler, Buckland, Deering, Kiana, Kivalina, Kobuk, Kotzebue, Noatak, Selawik, Shungnak, Noorvik Native Community



Unpredictable Regulatory Environment

- **Historically predictable sources reformed to produce less funding**
 - Expanded cap on Corporate Operations expenses
 - Loss of Safety Net Additive support, Local Switching Support, support for wireless
 - Reduced Interstate Intercarrier Compensation
- **Drastically increased regulatory expenses**
 - Five year broadband deployment plan
 - Form 481 and Tribal Engagement obligations
 - Compliance with new disability access requirements
 - Form 477 Broadband performance metrics
 - Consultant costs for compliance and advocacy

OTZ Revenues dependent on FCC policy/implementation



OTZ is striving to cut costs:

- Cut all training and conference travel
- Cut overtime in half
- Reduced staff by 13%
- Positions not refilled
- Pay freeze for Management and Union employees for 2014
- Payroll not likely to increase over the following two year period
- Services to City of Shungnak at risk: Due to USF uncertainty, OTZ still has central office equipment in city office with leaky roof

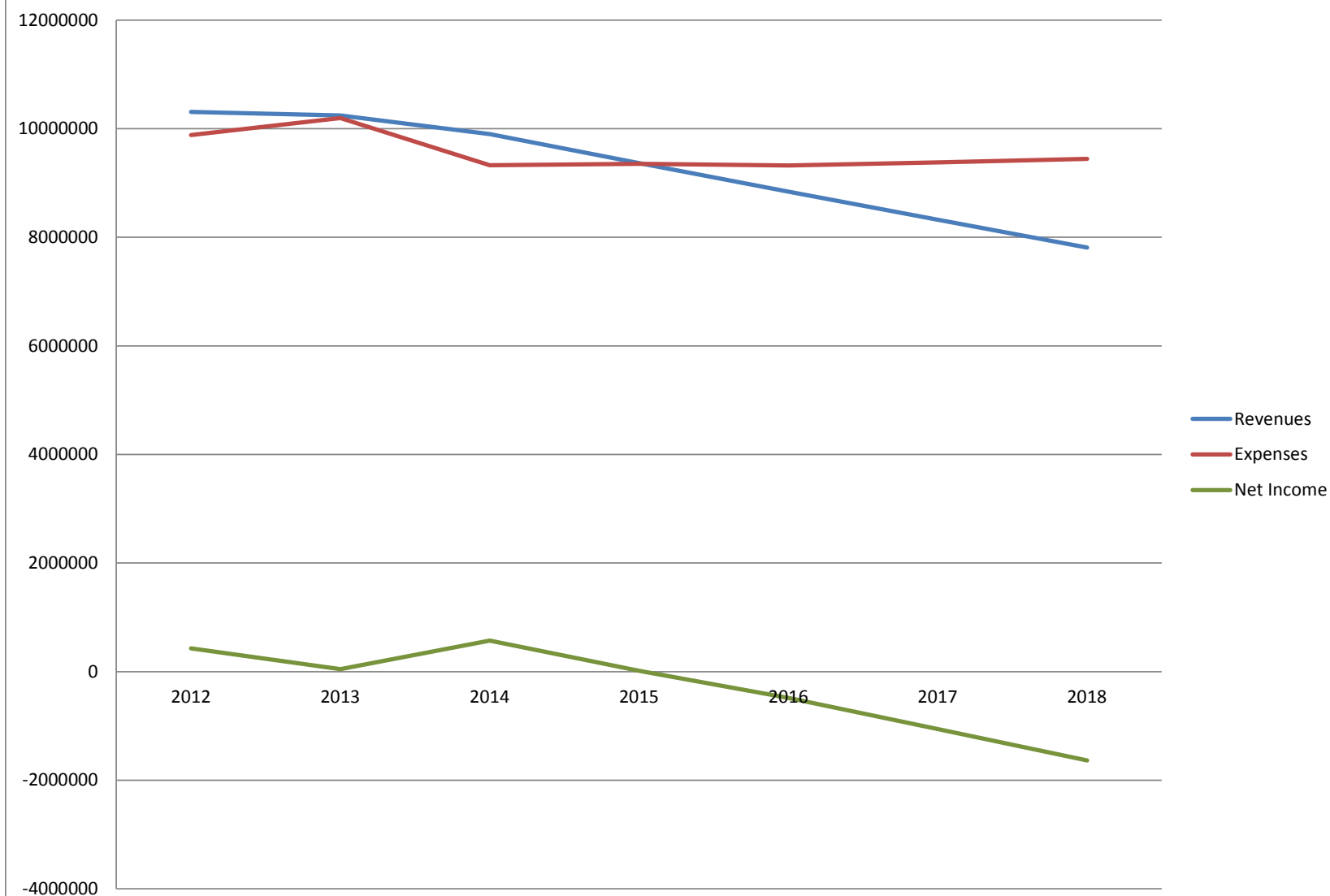


Forecast: Increasing Financial Distress

- **New funding sources leave OTZ with inadequate and uncertain revenue**
 - Unable to participate in reverse auctions: Letter of Credit requirement
 - Unpredictable future QRA impacts
 - Models for support based on price cap, lower 48 carriers – not yet representative of ACS, let alone OTZ and the other small Alaska carriers
 - Negative Alaska CapEx Coefficient
 - Remote Areas Fund contemplated as end user subsidy for satellite



OTZ Consolidated Operating Statement



Serious Consequences

- Halted plans to build-out wireless network in the villages because it cannot guarantee repayment of the RUS loan it had already obtained
- Even with drastic cost cutting and no build-out, OTZ forecasts it will be operating at a net loss beginning in 2016
- OTZ will be forced to close its doors unless changes are made to its support



Loss of Services in Remote Alaska

- **Internet/Landline**

- Without OTZ, satellite or substandard cellular service will be the only option in many villages
- Villages depend on OTZ for technical support and maintenance

- **Wireless**

- Unlike OTZ's 20-mile safety umbrella of wireless coverage around each village, GCI's service does not extend beyond the village boundaries
 - Without OTZ's additional coverage, village residents' safety will be compromised and lives will be lost
- GCI's service often cannot be used inside a building – in the winter this is more than an inconvenience

OTZ Needs Help

- Allow companies to recover for increasing corporate expenses to stay compliant, which are driven by increased regulations
- Delay phase down of identical support
- Delay phase down of access charges and allow for inflation
- Alaska Carve Out to help rural/remote areas
- Even the playing field for Mobility II and Tribal Mobility Phase II



Thank You

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